

clear with respect to the difficulty of efforts to expand ACOs across regions, or rapidly through mergers and acquisitions. Most efforts to aggregate medical groups across regions have been unsuccessful, reflecting the truism that health care is local. However, several ACOs cover broad geographic areas within the southern California (e.g., Heritage, HealthCare Partners) or northern California (e.g., Hill Physicians) regions, and Kaiser Permanente has a strong presence in all urban regions of the state, although even Kaiser faced difficulties expanding outside of its core geographic markets, and now focuses on expansion into proximate markets.

California's experience has also been that rapid expansion through mergers and acquisitions can cause market instability. During the 1990s, it was believed that there were economies of scale even at very large sizes and that the capabilities of existing ACOs could easily be extended to newly incorporated practices and medical groups. Investment capital flooded into the market, both from Wall Street (physician practice management firms) and from hospitals (integrated delivery systems), and there ensued a bidding war to acquire practices and expand regionally and nationally. These experiences were largely negative, and led to the closure or bankruptcy of 147 physician organizations serving 4.1 million patients in California between 1998 and 2002. Despite these experiences, the ACOs that survived have thrived, and California's healthcare marketplace has maintained stability throughout the past decade.